

BEFORE THE  
WASHINGTON METROPOLITAN AREA  
TRANSIT COMMISSION

WASHINGTON, D.C.

ORDER NO. 656

IN THE MATTER OF:

Served January 12, 1967

Application of D. C. Transit )  
System, Inc., for Authority )  
to Increase Fares. )

Application No. 396

Docket No. 131

APPEARANCES:

Harvey M. Spear, Leon G. R. Spoliansky, Samuel M. Langerman, attorneys for D. C. Transit System, Inc., Applicant.

Colin Barrett, pro se, Protestant.

John F. Satterlee, for the People's Republican Club, Intervenor.

Alfred S. Trask, for the Federation of Citizens Associations of the District of Columbia, Protestant.

Diana K. Powell, pro se and for Republican Precinct 46, Protestant - Intervenor.

Russell W. Cunningham, General Counsel, Washington Metropolitan Area Transit Commission.

OTHER FORMAL PARTIES:

Thomas E. Payne, for the Metropolitan Citizens Advisory Council, Protestant.

BEFORE EDWARD D. STORM, CHAIRMAN; H. LESTER HOOKER, VICE CHAIRMAN; GEORGE A. AVERY, COMMISSIONER

On October 17, 1966, D. C. Transit System, Inc., ("Transit") filed an application with the Washington Metropolitan Area Transit Commission ("Commission") seeking authority to modify its fares for the transportation of passengers intrastate within the District of Columbia and Maryland, and interstate between the District of Columbia, Maryland and Virginia.

Transit's application, accompanied by appropriate tariffs, testimony and exhibits, requests authority from the Commission to establish the following fares:

1. Four tokens for \$1.00 for regular route service within the District of Columbia (presently 4 for 85¢).
2. Transfer charge of 5¢ for regular route service within the District of Columbia, except for students using school tickets (presently free of extra charge).
3. D. C. Transit interline ticket for 35¢ plus 5¢ cash fare (presently 35¢ flat).
4. Interline ticket sold by other carriers plus 5¢ cash fare for regular route service within the District of Columbia (presently no additional charge).
5. Maryland local intrastate service:
  - (a) 25¢ cash fare for the first two zones of carriage, or any part thereof (presently 15¢ for first zone plus 8¢ for second zone);
  - (b) 10¢ additional cash fare for each of the third and

fourth zones of carriage, or any part thereof (presently 7¢ each);  
and

(c) 5¢ additional cash fare for each succeeding zone of carriage, or any part thereof (presently 7¢ each).

6. Maryland-District of Columbia local interstate service:

(a) 45¢ cash fare for regular route service within the District of Columbia and the first two zones of carriage, or any part thereof, in Maryland (presently 40¢ for D. C. and first Maryland zone, plus 8¢ for second zone);

(b) 10¢ additional cash fare for each of the third and fourth zones of carriage, or any part thereof, in Maryland (presently 7¢ each); and

(c) 5¢ additional cash fare for each succeeding zone of carriage, or any part thereof, in Maryland (presently 7¢ each).

7. Maryland-District of Columbia express interstate service:

(a) 35¢ cash fare, or 10¢ cash fare plus either a valid D. C. Transit transfer or one token, between the District of Columbia and the Maryland-District of Columbia Line (presently 35¢ cash, or 14¢ cash plus either a valid D. C. Transit transfer or one token);

(b) 25¢ additional cash fare for the first two zones of carriage, or any part thereof, in Maryland (presently 8¢ for the first zone and 7¢ for the second zone--also ten-ride commutation ticket @ \$4.10, covering District of Columbia and first Maryland zone);

(c) 10¢ additional cash fare for each of the third and fourth zones of carriage, or any part thereof, in Maryland (presently 7¢ each); and

(d) 5¢ additional cash fare for each succeeding zone of carriage, or any part thereof, in Maryland (presently 7¢ each).

8. Cash fare of 10¢ for Virginia interstate zone (presently 7¢).

9. Cash fare of 60¢ for Capitol Hill Express Service, or 35¢ cash fare and either a valid D. C. Transit transfer or one token (presently 50¢ cash or 30¢ cash plus a valid transfer).

10. Cash fare of 60¢ for seasonal operations between points in the Washington Metropolitan Area and D. C. Stadium (presently 50¢).

11. Cash fare of 35¢ for the first three zones of carriage, and the discontinuation of the issuance and acceptance of transfers, on the Silver Rocket Express Service (presently 30¢ with transfer provisions).

By Order No. 646, served October 21, 1966, the Commission scheduled the matter for public hearing, made provision for the availability of Transit's proposed testimony and exhibits, and directed applicant to post on its buses, and publish in a newspaper, notice of the time and place of the scheduled hearing.

Order No. 651, served November 15, 1966, suspended applicant's

Supplement No. 5 to Tariff No. 29, Supplement No. 3 to Tariff No. 28, and WMATC Tariff No. 3 (Joint), until February 13, 1967.

Notice having been duly given in accordance with the Commission's Rules and Regulations, public hearings began on November 10, 1966. Five formal parties were admitted to the proceeding. The Commission processed in excess of 130 informal protests, petitions and letters in connection with the proposed fare increases. Two evening sessions of the public hearings were held, one in the District of Columbia and one in Maryland, to afford interested persons, other than formal parties, an opportunity to be heard. On these occasions, 33 persons appeared and made statements for themselves or for organizations they represented. Such statements constituted 117 pages of transcript. Transit's Research and Development Department studied the statements made at these evening sessions and, on December 27, 1966, submitted to the Commission a fifty-two (52) page document consisting of its report on topics broached at the evening sessions which were not covered in the regular day sessions. In some instances, corrective action had been taken; in other instances Transit thought no action needed to be taken. All of these items will receive further consideration by the Commission's Engineering Department.

Nine sessions of the public hearing were held between November 10, 1966, and December 7, 1966, inclusive, producing a transcript of 1,216 pages and 79 exhibits.

Transit presented the testimony of its Vice President and Comptroller, Samuel O. Hatfield; its Vice President, Research and Development, William E. Bell; its Senior Vice President, J. Godfrey Butler; Robert R. Nathan of Robert R. Nathan Associates, Inc.; and V. A. McElfresh of H. Zinder & Associates, Inc. The Commission's staff presented the testimony of its Chief Engineer, Charles W. Overhouse, and of its Chief Accountant, Melvin E. Lewis. Oral argument was presented by Harvey M. Spear, attorney for applicant, and by protestants Alfred S. Trask and Diana K. Powell. Intervenor John F. Satterlee was permitted to submit written argument at the close of the hearings. Protestant Colin Barrett submitted a written brief after the close of the proceedings.

#### HISTORICAL DATA

To begin with the known and undisputed facts, D. C. Transit presented historical data for the twelve month period ending August 31, 1966. We should note at the outset that during this historical period, significant changes were made in Transit's management structure. Career personnel were elevated to the positions of senior vice president and vice presidents in charge of operations, research and development, and accounting; all activities relating to real estate or other non-transit functions have been removed from D. C. Transit-based personnel. These changes were made in compliance with Commission Order No. 564, of January 26, 1966, in which Transit was urged to separate its transit and non-transit activities in order to eliminate the involvement of transit

personnel in non-transit functions and to simplify the audit process.

Turning now to the figures submitted for the historical period, the books and records of Transit were audited and thoroughly analyzed by the Commission staff for the twelve month period ending August 31, 1966. During the audit, numerous adjustments were suggested by the staff in the recorded operating expenses of the Company. Transit accepted these adjustments and included them in their own adjustments to operating expenses, thus obviating the need for separate operating statements for the historical year in this proceeding.

These adjustments were set out in Transit's Exhibit 4, Schedule 2, and were identified as bonuses paid in 1966, nonrecurring items, savings due to relocation of certain operations to Bladensburg, elimination of overhead in limousine operations, and other salary deductions, all totalling some \$145,000.

#### FUTURE TEST PERIOD - ASSUMING NO CHANGE IN FARES

##### Revenue Projections

Transit estimated gross operating revenues in 1967 (the future annual period) to be \$33,694,409, continuing the present fare structure. In arriving at this estimate, it used the operating revenues for the twelve months ended August 31, 1966, as a base and made certain adjustments as follows:

<u>Operating Revenue</u>	<u>Actual 12 Month Period Ended August 31, 1966</u>	<u>Adjustment</u>	<u>Future Annual Period at Present Fares</u>
Passenger	\$30,573,537	\$795,517	\$31,369,054
Charter	1,899,679	95,545	1,995,224
Government Contracts	125,349	(14,872)	110,477
Station and Vehicle Privileges	121,565	18,438	140,003
Other	<u>62,825</u>	<u>16,826</u>	<u>79,651</u>
<b>TOTAL OPERATING REVENUE</b>	<b>\$32,782,955</b>	<b>\$911,454</b>	<b>\$33,694,409</b>

These adjustments were arrived at after a joint review of passenger and revenue trends by the Commission's staff and Transit representatives prior to the filing of Transit's fare application. Hence, no attack was made on these projections at the hearing.

To make these adjustments, each revenue source was studied, and, through the use of historical trends and the application of judgment based on past experience, reasonable revenue estimates were projected for 1967. For passenger revenue in 1967, Transit first posited a 1.95% rate of growth in 1966 over 1965, and then a 2.00% growth in revenues for 1967 over 1966.

Transit's projection of increased charter revenues in 1967 reflects its best estimate of revenue from this source due to the increase in charter rates which took effect on July 1, 1966. There is no evidence to indicate a continuation of the growth in charter business experienced in 1965 and 1966 over previous years.



The other items constituting operating revenue were based on the best information available.<sup>1/</sup>

Certain questions concerning operating expenses in the future test period must be considered. A vice president of Transit testified that the Company was unable to operate with a full quota of drivers during the 12 months ended August 31, 1966 (historical year). This testimony led to considerable discussion in the record as to the possibility of improving service and effecting some savings in operating costs by reducing overtime premium payments, if the full quota of drivers were available. Transit's vice president conceded that it would be more economical to operate with a full quota of drivers. This is a good example of the many imponderables involved in forecasting operating results for a transit company with any great precision. This is why there is a substantial school of thought which advocates the operating ratio technique of ratemaking for carriers; this school would let the effects of a full quota of drivers--whether they show up in increased revenues or decreased wage costs, or whether the full quota results in a higher wage bill--rest in the "margin" or rate of return on operating revenue. On this record, the Commission

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<sup>1/</sup> Transit has petitioned the District of Columbia Board of Commissioners for authority to place advertising on the outside of its buses. The revenue from this source has not been included in the gross operating revenues as it appears likely that Transit will not receive any substantial revenue from this source in 1967. The record includes a statement to the effect that, if this regulation were promulgated, it would require some six months before the sales effort and the physical requirements of such a program could produce its first dollar of revenue.

finds no substantial basis for adopting a specific dollar amount for net savings to be effected if Transit should reach its theoretical optimal quota of drivers.

Next, we turn to one of the major items of expense forecast by Transit for 1967, viz., some \$535,000 in wage increases based on forecast increases in the local Consumer Price Index during 1967. In all previous rate proceedings before this Commission wherein Transit has included a provision for cost of living increases in the future period, the Commission has allowed as an expense item only those cost-of-living wage increases which have materialized as of the date of the decision.<sup>2/</sup>

Transit has included, in these rate proceedings, cost-of-living increase provisions for the future period totalling \$535,866 contingent on Consumer Price Index changes for that period.

However, subsequent to the filing of its fare increase application with this Commission, Transit entered into a new labor agreement, effective from November 1, 1966 to October 31, 1969. As part of the agreement, Transit has apparently agreed to give certain definite hourly increases in 1967 in lieu of conditional cost-of-living increases.

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<sup>2/</sup> During the cross-examination of the Commission's Chief Accountant (Transcript, p. 890 et seq.), Transit apparently sought to show that the Commission had in fact allowed cost-of-living projections in the 1962 rate case. To keep the record straight, the Commission notes that the only "cost-of-living" increases included by the applicant in 1962 were those specifically guaranteed as to amount and effective date, on page 64 of the labor agreement which went into effect in November, 1962.

During the course of hearings, a Transit witness repeatedly stated that the "conditional nature" of the cost-of-living index of the 1965 labor contract was changed by the November, 1966 agreement to a "fixed obligation", in the amount of approximately \$500,000. In order to clarify this point, the Commission requested its staff to calculate the cost of wage increases contracted for in the new labor agreement. A memorandum setting forth the staff's detailed calculations, showing a projected cost of \$544,119 for hourly increases in 1967, was mailed to all parties of record on January 4, 1967; the memorandum is hereby made a part of the record in this case.

Scrutiny of the memorandum indicates that the Company testimony was misleading or mischaracterized. It would appear that the \$500,000 to which the witness referred was the total cost of the new contract for the year 1967, and was not limited to merely "finalizing" any cost of living increments.

For the purpose of this interim order, the Commission will accept, as an expense item, the full amount stated in the staff memorandum, being a known cost for the future annual period as the record now exists. This matter may be subjected to examination in the hearing hereinafter scheduled.

Having resolved these questions, we can set forth, on the basis of the facts of record, the following operating statement for the year 1967, assuming fares are maintained at their present level:

**PROJECTED OPERATING STATEMENT  
FOR THE YEAR 1967, AT PRESENT FARES**

Operating Revenue		\$33,694,409
Operating Revenue Deductions:		
Operating Expenses	\$30,636,944	
Taxes, other than income taxes	1,013,693	
Depreciation	2,964,321	
Amortization of Acquisition		
Adjustment	(194,516)	
Total Operating Revenue Deductions		\$34,420,442
Net Operating Income (Loss)		<u>\$ (726,033)</u>
Operating Ratio	102.15%	
Return on Gross Operating Revenue (Loss)	(2.15%)	

**Finding as to Future Test Period with No Fare Increase**

We must conclude, therefore, in view of the testimony in the record and the discussion above, that, under the present fare structure of Transit, the probability is that applicant will operate in 1967 at a net operating loss of \$726,033.

**ALTERNATIVES TO FARE INCREASE**

Before considering whether to increase fares in view of the financial situation faced by Transit, we will first take up possible alternatives to generating additional revenues through the fare box.

**1. Court-Ordered Reserve**

In the last rate case involving Transit, we ordered use of the Court-Ordered Reserve rather than increasing fares. As discussed below, that alternative is no longer available.

The Court-Ordered Reserve was established by Order of the United States District Court for the District of Columbia in September of 1963, as a result of Appeals from Orders of the District of Columbia Public Utilities Commission of March 2, 1960 (PUC Order 4631) and of January 18, 1961 (PUC Order 4735).

At the time of the issuance of WMATC Order No. 564, on January 26, 1966, the balance available in the Court-Ordered Reserve was \$2,166,933.21. By Order 564, this Commission authorized utilization of the reserve credits in two ways: first, by removing the amount of \$806,168 in order to restore a deficiency in the depreciation reserve, and second, by permitting the applicant to utilize the remaining credits in the Court-Ordered Reserve, in the amount of \$1,360,765.21, to make up a deficiency in earnings forecast for 1966. At the time of ordering this utilization of the Court-Ordered Reserve, the Commission, on page 40 of Order 564, stated:

In allowing Transit to transfer the funds in the Court-Ordered Reserve to its Retained Earnings Account, the Commission must emphasize that should there develop a substantial disparity between net operating income in 1966 and the amount projected in this Order, so that the net operating income experienced in 1966 is substantially greater than the amount provided for in this Order, the Commission reserves the right to reduce the amount transferred.

Staff Exhibit S-5, accordingly, was introduced, utilizing the latest available data from the books of the Company, namely, the first nine months of 1966. Working with detailed estimates of the last three months of 1966, the exhibit shows definitely that, even with full usage of the balance in the Court-Ordered Reserve during 1966, the net operating income of applicant will not reach the \$2,000,000 figure, or 6.03% return on gross operating revenues, authorized in Order 564. Exhibit S-5 projected net operating income of under one and one-half million dollars and a rate of return on operating revenues of under 4-1/2%.

The Commission therefore will give no further consideration to the availability of any credits in the Court-Ordered Reserve for 1967.

2. Acquisition Adjustment Account

The staff, diligently pursuing its function of suggesting to the Commission possible means by which a fare increase could be averted for the present, pointed out that the Commission could require that the entire balance in the Acquisition Adjustment Account be written off in 1967. The resulting credit to income would, in theory, reduce the need for operating revenues by a like amount.

The Commission has carefully considered this possibility and has concluded that it would be clearly unwise to pursue it. The Company's basic problem is that revenues generated through the fare box, at present fare levels, are insufficient to cover its financial needs. We could fling into the breach the entire balance in the Acquisition Adjustment Account; however, that would not solve the basic problem, and a year from now we would again be faced with the same financial needs. These needs would then have to be met with no help whatever from the Acquisition Adjustment Account, which would have been entirely depleted. The resulting impact on the ratepayer could well be drastic, and, more to the point, more drastic than if the account had been amortized over a period of years, as is presently contemplated.

Moreover, using the account in this manner would deprive riders in future years of any benefit from the account. It seems more equitable to spread the benefit of the account over the entire life of the franchise.

Finally, the Commission must bear in mind its responsibilities to the Company with respect to its indisputable need for long range fiscal planning. It appears eminently unfair for a commission to impose upon a carrier a constantly changing rate of amortization of an item as large and as important as the Acquisition Adjustment.

Thus, the Commission finds, in accordance with Order No. 385, issued September 11, 1964, page 3, that "the most equitable and effective means of equalizing the impact of the Acquisition Adjustment on each succeeding year's ratepayers is to amortize the balance equally each month over the remaining life of the franchise under which D. C. Transit System, Inc., is operating."

3. Reserve for Track Removal and Repaving

Thinking in terms of additional sources of revenue for the future year, the Commission notes that there does remain some three-quarters of a million dollars in the Track Removal Reserve, but feels constrained, so long as the liability for track removal is a reality, and until such time as Congress may remove the obligation from the applicant, to retain this reserve against possible future requirements.

This item does not appear to the Commission to be susceptible to conversion to use in lieu of an adjustment in fares at this time.

4. Change in Bus Purchase Program

It was pointed out in Exhibit S-12 that some \$400,000 could be saved in 1967 if the bus renewal and replacement program were sus-



pended for 1967, assuming that there would be a concomitant adjustment in the rate of depreciation from a 12-year life to a 13-year life. An additional \$94,000 in interest savings would also occur, being the amount of interest expense that would be paid on the financing of the 100 new buses Transit is required to purchase. The cash outlay in the form of principal payments on the note covering the buses would also be avoided. The Company's cash situation would be further helped to the extent that Transit would not have to expend a required \$350,000 down payment on the new buses in 1967.

Having considered the question, however, and having restudied the program which requires a replacement of buses to the extent of 1/12th of the fleet each year, we have decided not to adopt this alternative. The purchasing program established by WMATC Order 362 has led to substantial improvements in the standards of comfort and service available to patrons of the Company. This is a significant factor, we are sure, in the Company's retention of, and growth in, ridership. To abandon the program in the face of the current financial problem could well be the first step in a descending spiral of deterioration in service standards. It is wiser, we are sure, to face up to the financial needs of the Company so that it can maintain the high standards which the Commission has previously sought.

### Summary on Alternatives to Fare Increase

These, then, were the alternatives suggested to an increase in fares. None of them seems wise or acceptable. Hence, we must consider increasing the flow of revenues through the fare box. We will consider first the fare structure proposed by Transit.

### FUTURE TEST PERIOD - WITH FARES AS PROPOSED BY TRANSIT

Transit estimated that its proposed fare structure would produce gross operating revenues in 1967 of \$37,446,727. In arriving at this estimate, it used the estimated operating revenues for the 12 month period ended December 31, 1967, at present fares as a base, and limited its adjustments to passenger revenues, as shown below:

	<u>Present Fares</u>	<u>Adjustments</u>	<u>Proposed Fares</u>
Operating Revenues:			
Passenger	\$31,369,054	\$3,752,318	\$35,121,372
Charter Bus	1,995,224	--	1,995,224
Government Contracts	110,477	--	110,477
Station and vehicle Privileges	140,003	--	140,003
Other	<u>79,651</u>	<u>--</u>	<u>79,651</u>
TOTAL	\$33,694,409	\$3,752,318	\$37,446,727

In estimating passenger revenues under proposed fares, the Company assumed a loss in passengers equivalent to .20% for each 1% increase in fares and also assumed an increase in patronage of .20% for each 1% decrease in fares.

Protestant Barrett has propounded some extreme examples forecasting major reactions to fare increases, far beyond the ranges calculated by Transit or the Commission staff. The Commission must base its findings on documented data and upon material supported by careful research; it will accept the estimates as to passenger volume and revenues as introduced into the record by Transit and the Commission staff, as being realistic and within the range of relevance.

The increase and decrease factors used by Transit were the result of joint study by the Commission's engineering staff and Transit's research department, of Transit's experience with resistance factors prior to the present case.

Transit's witness testified that the experience of D. C. Transit indicates it will experience a resistance of .24% which is slightly higher than the .20% factor used. Transit thus assumes the risk of lower-than-estimated revenues in 1967 if resistance is .24% instead of the more optimistic .20% factor.

According to Company Exhibit 5 and Staff Exhibit S-14, the fares proposed by applicant will produce a net operating income in 1967,

before taxes, of \$3,034,538. After giving effect to the provisions of the November, 1966, labor agreement, the net operating income will stand at \$3,026,285, before income taxes.

Before making a final calculation as to the effect of Transit's proposal, we must examine the effect of accelerated depreciation on income taxes. Tax law permits a choice by the taxpayer of straight-line or accelerated methods of charging depreciation. Company witness stated that it will use the straight-line method in the future period. We recognize that the use of accelerated depreciation is to the advantage of the Company, and hence to the ratepayer, only in those cases where plant growth is on a constantly increasing basis. Otherwise, acceleration of depreciation accomplishes only a deferral of taxes. Thus future riders will bear a greater tax expense than present riders. The burden could be even further increased should tax rates go up. Data presented to the Commissioners by the staff, based on book figures and material included in Company Exhibit 8, show that net operating plant in service increased 9% in 1965 over 1964, but only 8/10ths of one percent in 1966 over 1965, and a forecast 1.2% increase in 1967 over 1966. This uneven and relatively low rate of increase would indicate a disadvantage to future ratepayers if ac-

celerated depreciation were utilized in calculating income taxes; hence, we will use the straight-line method rather than accelerated depreciation in forecasting the income tax.

In any event, so far as 1967 taxes are concerned, the Commission notes that applicant, in Exhibit No. 5, provided for income taxes for 1967 in the amount of \$744,998, based on earnings at proposed fares; however, according to Staff Exhibit S-16, there is a net loss for tax purposes available from 1966 in 1967 of \$1,295,355. After making allowance for the interest payments forecast for 1967 (\$1,311,444) and after allowing for an adjustment for tax purposes because of non-taxable revenue in the form of the acquisition adjustment (\$194,516), the Commission finds that net income tax payable in 1967, even if the entire rate increase requested by applicant were granted, would amount to no more than \$141,014, giving no effect to investment tax credits available.

Summarizing the items covered in this section in the tabulation immediately following, the Commission finds that the proposed fares will generate a net operating income of \$2,885,271, which equates to a return on gross operating revenues of 7.71%.

**PROJECTED OPERATING STATEMENT FOR YEAR 1967**  
**AT FARES PROPOSED BY APPLICANT**

Operating Revenue		\$37,446,727
Operating Revenue Deductions:		
Operating Expenses	\$30,636,944	
Taxes, Other than Income Taxes	1,013,693	
Income Taxes (D. C. & Maryland)	141,014	
Depreciation	2,964,321	
Amortization of Acquisition		
Adjustment	<u>(194,516)</u>	
Total Operating Revenue Deductions		<u>34,561,456</u>
NET OPERATING INCOME		<u>\$ 2,885,271</u>
Operating Ratio		92.29%
Return on Gross Operating Revenue		7.71%

These, then, would be the financial results of Transit's proposed fare structure. We must now decide whether these results are in the public interest.<sup>3/</sup> This brings us to the matter of the fair return.

<sup>3/</sup> This requires us to "give due consideration, among other factors, to the inherent advantages of transportation by such carriers; to the effect of rates upon the movement of traffic by the carrier or carriers for which the rates are prescribed; to the need, in the public interest, of adequate and efficient transportation service by such carriers at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable such carriers, under honest, economical, and efficient management, to provide such service." Washington Metropolitan Area Transit Regulation Compact, Article XII, Section 6(a)(3).

### FAIR RETURN

The return to be allowed to D. C. Transit is perhaps the most important question in this proceeding. Indeed, consideration and reflection on the preceding discussion indicates that this is almost the only question of substance to be decided by the Commission. The Company's revenue and expense figures for the future test period, i.e., 1967, assuming present fares, were all reviewed in advance by the staff, so that all disputes were resolved in advance and few questions remained for consideration by the Commission. The same situation exists with regard to future test period figures submitted by the Company on the basis of the fare increase it seeks, the only substantial question being the matter of income taxes discussed supra.

Hence, we have before us, with little or no dispute, the Company's operating results, both with the present fare structure and with the proposed fare structure. Under present fares for 1967, the Company's return on gross operating revenues will be minus 2.15%, an operating ratio of 102.15%. Under its proposed fare schedules, applicant's return on gross operating revenues will be 7.71%, an operating ratio of 92.29%. We must decide where on the spectrum between these two figures lies a fair return for Transit.

For guidance on the applicable legal principles, we need to look generally to the decision of the Court of Appeals in D.C. Transit

System, Inc. v. Wash. Metro. Area Transit Comm., 350 F.2d 753 (D.C. Cir. 1965) where the court discussed the rate of return question as it applies to D. C. Transit. The court ruled, first, that Transit is not entitled to a guaranteed return of 6.5%, as had been argued in that case.

The court went on to discuss, in detail, the factors to be taken into consideration in determining the proper rate of return. While we must make use of the operating ratio method in determining the rate of return, we must make inquiry into a number of factors. Our objective is to determine a just and reasonable rate, i.e.,

. . . one that assures that all the enterprise's legitimate expenses will be met, and that enables it to cover interest on its debt, pay dividends sufficient to continue to attract investors, and retain a sufficient surplus to permit it to finance down payments on new equipment and generally to provide both the form and substance of financial strength and stability. D. C. Transit System, Inc. v. WMATC, supra, 350 F. 2d at 778.

In making this determination, we must inquire into such matters

. . . as the capital programs in prospect, what such programs entail in terms of down-payments as well as financing, the cost of borrowing money, working capital needs, the desirable ratio of debt to equity, the incentives required by a stockholder to keep his money in the business and the dividends and growth rates requisite to supply these incentives, the opportunities in these respects provided in comparable businesses, and [the] related matters . . . . D. C. Transit System, Inc. v. WMATC, supra, 350 F.2d at 779.

Moreover, we must not only make this inquiry but we must spell out



our reasoning in some detail. Finally, we must bear in mind, not only earnings on investments of comparable risk, but also particular facts and circumstances surrounding this Company, such as its future equipment needs and their financial aspects, the Company's peculiar capitalization, its earnings history, and its present risk situation in the light of that history. In short, it is incumbent upon the Commission to undertake a thorough cost-of-capital study, as such studies have evolved in the regulatory field, in determining the return to be allowed to D. C. Transit.

This, then, is the legal aspect of our task on rate of return. The principles have been spelled out with clarity by the court; they may be ascertained and applied. Unfortunately, however, the present record is inadequate to make the inquiries and reach the conclusions called for.

During the course of the hearing on this application, testimony as to the proper margin of return was presented by only one witness, Mr. V. A. McElfresh of Zinder & Associates, an expert in this field called in by Transit.<sup>4/</sup>

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<sup>4/</sup> The staff's Chief Accountant presented exhibits and testified as to the corporate background and historical and other factors to be considered in arriving at a fair return not only for a transit operator in today's economy but for this specific applicant. The role of the staff in rate cases was stated in this Commission's first D.C. Transit rate case Order (No. 245, April 12, 1963) as being to objectively analyze all relevant data and to refrain from taking an adversary position. The staff therefore makes no recommendations as to fair return.

Mr. McElfresh presented compilations showing rates of return allowed by regulatory authorities and the courts in cases involving transit companies and other utility companies. He compared this data with relevant data of Transit, and extended this comparison to the history of stock prices on the market for other carriers and for Transit's parent, D.C. Transit of Delaware. He discussed price earnings ratios and other indicators of the cost of capital in attempting to arrive at a fair rate of return on Transit's capitalization.

In essence, Mr. McElfresh has urged upon the Commission an approach to resolving the rate of return question which purports to be the "comparable earnings" approach. In Exhibits 26 through 32, he has set forth figures showing the returns earned by groups of other transit companies and even by other types of regulated utilities, such as gas, electric and telephone companies. He has also provided us, in Exhibit 31, with a tabulation of returns on gross operating revenues allowed by other commissions in cases in recent years involving transit companies. The information he has supplied, says Mr. McElfresh, will provide a basis on which the Commission can, in the exercise of its judgment, determine the proper rate of return.

It would seem, however, that the data supplied lack certain basic elements needed if they are to be a basis for decision on this question. The basic premise of the comparable earnings approach is that the utility in question should be allowed to earn a return

similar to that being earned on investments of comparable risk.

FPC v. Hope Natural Gas Co., 320 U.S. 591 (1944). Before using a given set of figures involving other companies, we must have some basis on which to conclude that these companies are comparable in risk to the company in question here. In most cases where the comparable earnings approach is used, evidence is presented relating to the comparability of risk of the companies used with the particular company in question. The question then becomes whether a sufficient basis for comparability has been established. Here, however, not only is there no such evidence, but the witness himself has pointed out that variations in risk exist between Transit and the companies he has used in his exhibits. He states that the other regulated utilities have less risk than transit companies generally, thus making figures regarding such companies of peripheral value only. He argues that Transit faces greater risks than the other transit companies in his exhibits because of its high debt ratio, but he does not give us an overall picture of their risk comparability on the basis, not only of debt, but of their general operating statistics, growth patterns, financial histories and other pertinent factors. <sup>5/</sup> We

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<sup>5/</sup> In criticizing a staff exhibit which reflected a compilation of data and statistics of many carriers of various sizes for one year, Company counsel agreed that such information is of limited value for comparative purposes unless something is known about the nature of the carrier's operational and financial background. (Tr. 934).

cannot reach a conclusion on the proper level of D. C. Transit's return on the basis of the information supplied.

A further weakness in Mr. McElfresh's comparable earnings presentation is its failure to take into account certain particular facts concerning Transit insofar as they affect the risk involved in an investment in Transit. These facts would include Transit's position in a complex corporate structure. It is a subsidiary of an enterprise having a variety of activities. The parent company, in turn, has a number of subsidiaries engaged in non-transit activities such as real estate and broadcasting. We are fully aware that what we are regulating is the company's transit operation and, in mentioning these other factors, we do not assert any jurisdiction or control over them. However, we are not considering the abstract question of what return should be allowed to a theoretical transit operation. We are trying to determine the return to be allowed to Transit. This requires an assessment of the cost of capital to this particular company,<sup>6/</sup> and that cost, from the viewpoint of an investor, would be determined not merely by the risk involved in the transit operation, but by the overall prospects of the company in all its

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<sup>6/</sup> To put it in the language of the Court of Appeals, we are seeking to determine the return which, after expenses, and debt service, will permit the company to "pay dividends sufficient to continue to attract investors, and retain a sufficient surplus . . . to provide both the form and substance of financial strength and stability."

endeavors. Further in this connection, we are given no help on how the risk factor for Transit is affected by future prospects for development of real estate still held by Transit but which might be developed in other ways. We are not asserting that such prospects exist but we are interested in evidence or discussion of the question. Finally, we find nothing on how the risk factor and, therefore, the cost of capital, is affected by the Company's past financial history.

We have no doubt that all these factors must be considered. The Court of Appeals has made that perfectly clear. This record, however, does not permit the exercise of judgment, or the reaching of conclusions, on these matters.

Before leaving this discussion of the adequacy of the present record on the return question, we should also note that Mr. McElfresh also presented evidence relating to the market behavior of Transit's stock. However, his study involved the stock of D. C. Transit of Delaware, which price could be affected by factors other than the financial results of D. C. Transit of D. C., and we are given no help in how to assess the influence of the various companies involved on the market behavior of D. C. Transit of Delaware. Moreover, the evidence concerned price-earnings ratios, and Mr. McElfresh himself stated that these ratios were unreliable in the case of D. C. Transit of Delaware.

We do not reject Mr. McElfresh's testimony. We have certainly

considered it closely and carefully. The data set forth are not without relevance to our inquiry, and Mr. McElfresh has discussed these data clearly and intelligently. We are convinced, however, that the record requires more. Having considered at length how best to obtain the adequate record we seek, we have instructed the staff to engage the services of an expert having expertise in, and knowledge of, the subject matter. The expert will conduct an investigation of the return question and present his testimony and exhibits, and be examined thereon, at the further hearing hereinafter prescribed.

Our discussion of Transit's rate of return testimony is not meant to be a final commentary thereon, in that we have not attempted to exhaustively discuss all aspects of it. Accordingly, the expert shall not limit himself to those points we have discussed above, but shall address himself to the question generally.

#### NEED FOR INTERIM ORDER

The reopening of the proceeding obviously will necessitate a delay in the issuance of a final order ultimately concluding this matter. Nevertheless, we cannot ignore the financial condition of the applicant.

When we issued our Order No. 564 on January 26, 1966, deciding Transit's last request for a fare increase, we recognized that the existing fare structure would probably produce net operating revenues,

after taxes, of \$648,357 for the calendar year 1966. The Commission recognized the insufficiency of this amount, but required the Company to furnish the balance required through the utilization of the Court-Ordered Reserve.

We have found herein that if the applicant were to operate under the existing fare structure for the year 1967, it would have a net operating loss of \$726,033, before interest expense. The embedded cost of debt to the Company, in the form of interest on equipment and plant obligations, will exceed a million dollars in the future period. To require the Company to operate at such a substantial loss for even a relatively short period of time would be unwise, and indeed could imperil its financial health. Concomitantly, the standard of service rendered by a company in such a condition usually deteriorates drastically; thus, the Company and the public would be disadvantaged and possibly suffer irreparable harm.

Therefore, we find that interim rates should be approved which will enable Transit to cover its operating expenses and bare capital costs. Transit may file supplemental tariffs to the tariffs under consideration herein containing the fare structure hereinafter set forth on or before January 13, 1967, to become effective at or after 4:00 A.M. January 14, 1967, and to terminate on March 15, 1967, unless otherwise prescribed by the final order of this proceeding.

#### INTERIM FARES

The Commission has found that, by changing the rates of fare

proposed by Transit, as set out below, applicant will be able to operate at a viable level at least until further determinations can be made as to what constitutes a proper rate of return:

1. No charge for transfers.
2. Tokens in the District of Columbia to be sold four for 95¢.
3. The acceptance and issuance of transfers on the Silver Rocket Express Service to be continued.
4. The charge for carriage between the District of Columbia and:
  - (a) The first Maryland Interstate Zone, or any part thereof, to be 40¢ cash fare for local service and 50¢ cash fare for express service.
  - (b) The second Maryland Interstate Zone, or any part thereof, to be 45¢ cash fare for local service and 60¢ cash fare for express service.
5. The charge for carriage on the Capitol Hill Express Service to be 60¢ cash fare or 40¢ cash fare and a valid D. C. Transit transfer.



PROJECTED OPERATING STATEMENT FOR YEAR 1967  
AT FARES AUTHORIZED BY THE COMMISSION

Operating Revenue

Passenger	\$33,616,166
Charter	1,995,224
Government Contract	110,477
Station and Vehicle Privileges	140,003
Other	<u>79,651</u>
 Total Operating Revenue	 \$35,941,521 (a)

Operating Revenue Deductions

Operating Expenses	\$30,636,944
Taxes, Other than Income Taxes	1,013,693
Income Taxes	756 (b)
Depreciation	2,964,321
Amortization of Acquisition Adjustment	<u>(194,516)</u>
 Total Operating Revenue Deductions	 <u>34,421,198</u>

NET OPERATING INCOME \$ 1,520,323

Operating Ratio 95.77%

Rate of Return on Operating Revenue 4.23%

(a) An increase of \$2,247,112 over projected revenues in 1967 without a fare increase. (Source: Exh. 50-A, Col. h, line 3)

(b) Net Operating Income	\$ 1,520,323
Add: Income Taxes	<u>756</u>
	1,521,079
Deduct: Amortization of	
Acquisition Adjustment	(194,516)
Interest	<u>(1,311,444)</u>
Net Taxable Income	\$ 15,119
5% Thereon	\$ 756

The interim fare structure herein provided avoids the controversial transfer charge and also permits some of the increased fare burden to fall upon the suburban area, which has not had a general fare adjustment since 1960. There is tabulated in Appendix A to this Order the entire schedule of fares for Transit, showing the fares in effect prior to this Order, Transit's proposals, and the fares authorized herein.

Effect of Interim Fare Increase on Washington, Virginia and Maryland Coach Company, Inc.

In ordering an increase in fares on the Silver Rocket Express, the Commission is permitting Washington, Virginia and Maryland Coach Company, Inc., (W. V. & M.) which joined in the tariff request, to increase its fares in one segment of its operations. It has been determined that the gross effect of this increase in fares will be in the approximate amount of \$4,000 for the year 1967. This latter amount equates to one-tenth of one percent of the gross operating revenues of W. V. & M. In view of the negligible effect this fare increase will have on W. V. & M.'s rate of return, the Commission will dispense with any formal requirements that W. V. & M. justify the fare increase.

Effect of Interim Fare Increase on D. C. Transit System, Inc.

The projected result of the interim fare increase, on an annual basis, for 1967, is, as previously noted, a net operating income of

\$1,520,323. This is a return on operating revenue of 4.23%, or an operating ratio of 95.77%. Out of the \$1,520,323 must come \$1,311,444 for interest expense estimated for 1967, leaving some \$209,000 as return to the equity holder; this constitutes a return of 5% on the equity of \$4,207,439 at August 31, 1966 (Exhibit #2). The net operating income, exclusive of interest cost, equates to .76% of average rate base projected at August 31, 1967 (Exhibit #8).

At this point it is appropos to discuss the relationship among the various fares in the rate structure, particularly as challenged by Protestant Barrett in his written brief.

Article XII, Section 6 sets forth certain criteria for prescribing fares:

. . . the Commission shall give consideration to, among other things, the financial condition of the carrier, its revenue requirements, and whether the carrier is being operated economically and efficiently.

If, . . . , the Commission finds that any fare, . . . is unjust, unreasonable or unduly preferential or unduly discriminatory either between riders or sections of the Metropolitan District, it shall issue an order prescribing the lawful fare, . . . to be in effect.

. . . the Commission shall give due consideration, among other factors, to the inherent advantages of transportation by such carriers; to the effect of rates upon the movement of traffic by the carrier or carriers for which the rates are prescribed; to the need, in the public interest, of adequate and efficient transportation service by such carriers at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable such carriers, under honest, economical, and efficient management, to provide such service.

It is clear that the Compact deals with each regulated carrier as an entity--not as a group of individual lines, each with its own allocation of revenues, expenses, and profit. The method used by Transit in determining which rates should be increased is the method commonly used in establishing transit fares throughout the United States. The Commission is aware that there are some services by Transit in which cost exceeds revenue. Examples would be Sunday or evening service when patronage is light, the extremities of most routes, and certain routes of lightly populated areas. Many factors must be considered in fixing specific rates for various services, and the cost of providing such services may not necessarily be the controlling factor; many times the controlling factor is the "public interest." This is indicated very clearly in Title II, Article XII, Section 4(1) of the Washington Metropolitan Area Transit Regulation Compact, which states:

The fact that a carrier is operating a route or furnishing a service at a loss shall not, of itself, determine the question of whether abandonment of the route or service over the route is consistent with the public interest as long as the carrier earns a reasonable return.

It is readily apparent that the interim fare structure here promulgated will produce a return that is not excessive, by any method of measuring fair return. It is indisputable that the \$1,520,000 in net operating income as projected will just cover the cost of debt service and leave a cushion of only 6/10ths of 1% of operating expenses; thus, an error of .6% in overestimating

revenues or .6% in underestimating expenses will leave Transit with enough to pay operating expenses and interest and just break even.

It is imperative, then, that relief be granted at least to the extent herein promulgated on an interim basis until more data are available upon which to arrive at a just decision.

#### NEED FOR RELIEF FROM THE TRACK REMOVAL OBLIGATION

This Commission has included in each of its rate case decisions involving D. C. Transit System, Inc., a notation as to the financial impact of the track removal program on the ratepayer. The Commission has always urged that Congress relieve the Company of this seemingly interminable obligation which was formalized as far back as 1942. Since August 15, 1956, the local ratepayers have contributed some six and one-half million dollars to the Reserve for Track Removal; three-quarters of a million dollars remains to be expended, after which the ratepayer will be looked to for additional contributions to this program. The difficulty now is that what was considered in 1956 to be a ten-million dollar project is now not even subject to exact estimate as to ultimate cost. Much track has been covered rather than removed; at some future time, even ten years hence, if the need occurs to dig up the street and remove the track it is Transit's (i. e., the ratepayers') obligation to pay for it.

The Commission again recommends that Transit be relieved of this obligation.

#### NEED FOR RELIEF FROM INCOME TAXES

The Commission notes the tendency in the transit industry toward municipal ownership. This may be due in some measure to the fact that a municipally owned transit system is likely to be exempt from certain federal, state, and local taxes, thereby reducing the amount of money it must take in through the fare box by the amount of such taxes. In addition, municipally owned transit systems may be able to operate at a loss over a protracted period, making up these losses out of general tax funds. In short, under otherwise identical conditions, a municipally owned transit system may well be able to charge lower fares.<sup>7/</sup>

In order to equalize the economic disparity between private and municipal ownership, the Commission again recommends (Order #564, January 26, 1966, pp. 39-40) that Congress adopt legislation exempting privately owned mass transit carriers from the federal income tax.

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<sup>7/</sup> It is to be noted, however, from testimony adduced at the hearings (Tr. 270-272) that this theoretical advantage of a municipally owned system does not always result in lower fares. A study of twelve of the largest municipally owned transit systems in the country revealed that seven had basic fares higher than those of Transit. Even under the interim fares granted herein, the basic rates still remain higher for the seven municipally owned systems.

Such legislation would, by its very nature, result in an increased standard of service to the transit rider, assist in leveling the tax burden of all transit riders, and permit the privately-owned transit system to compete more effectively for the privilege of meeting the transportation needs of the nation's urban and suburban residents.

#### FINDINGS

The Commission has not attempted in this Order to discuss all of the numerous contentions and sincere arguments put forward by the various parties to this proceeding; it has nevertheless carefully reviewed and considered all such testimony, exhibits, and briefs in reaching its decision.

#### CONCLUSIONS OF LAW

The Commission concludes as a matter of law:

1. That the present fare structure of applicant is unjust and unreasonable in that it will produce an operating deficit in 1967 that will imperil the Company financially.
2. That the fares proposed by applicant may be unjust and unreasonable in that they would produce net operating revenues that may be in excess of a fair return; this can only be determined by re-opening the record for additional expert testimony.
3. That the fares authorized by this Order on an interim basis

are just and reasonable, considering their stop-gap nature; they are not unduly preferential nor unduly discriminatory either between riders or sections of the Metropolitan District; they will produce earnings sufficient to save applicant from financial jeopardy, allowing the Company to pay its operating expenses and to service its debt.

**THEREFORE, IT IS ORDERED:**

1. That applicant, D. C. Transit System, Inc., be, and it is hereby, authorized to file Supplement 5A to its Supplement No. 5 to WMATC Tariff No. 29 (Tariff of D. C. Transit System, Inc.) on or before January 13, 1967, to become effective at or after 4:00 A.M. January 14, 1967, and to specify a termination date of March 15, 1967, unless otherwise ordered, setting forth fares as shown below:

(A) Four (4) tokens for ninety-five cents (95¢).

(B) Maryland Intrastate Local Service: twenty-five cents (25¢) cash for the first two zones of carriage or any part thereof; ten cents (10¢) additional cash for each of the third and fourth zones of carriage, or any part thereof; and five cents (5¢) additional cash for each succeeding zone of carriage, or any part thereof.

(C) Maryland-District of Columbia Interstate Local Service: forty cents (40¢) cash for regular route service within



the District of Columbia and the first zone of carriage, or any part thereof, in Maryland; five cents (5¢) additional cash for the second zone of carriage, or any part thereof, in Maryland; ten cents (10¢) additional cash for each of the third and fourth zones of carriage, or any part thereof, in Maryland; and five cents (5¢) additional cash for each succeeding zone of carriage, or any part thereof, in Maryland.

(D) Maryland-District of Columbia Interstate Express Service: thirty-five cents (35¢) cash, or ten cents (10¢) cash plus either a valid D. C. Transit transfer or one token, between the District of Columbia and the Maryland-District of Columbia Line; fifteen cents (15¢) additional cash for the first zone of carriage, or any part thereof, in Maryland; ten cents (10¢) additional cash for each of the second, third, and fourth zones of carriage, or any part thereof, in Maryland; and five cents (5¢) additional cash for each succeeding zone of carriage, or any part thereof, in Maryland.

(E) Capitol Hill Express Service: sixty cents (60¢) cash, or forty cents (40¢) cash plus a valid D. C. Transit transfer.

(F) Virginia Interstate Zone: cash fare of ten cents (10¢).

(G) Interline Ticket: requiring five cents (5¢) additional

cash to be deposited in fare box.

2. That applicant, D. C. Transit System, Inc., be, and it is hereby, authorized to file Supplement 3A to Supplement No. 3 to WMATC Tariff No. 28 (Tariff of D. C. Transit System, Inc.), on or before January 13, 1967, to become effective at or after 4:00 A.M. January 14, 1967, and to specify a termination date of March 15, 1967, unless otherwise ordered, setting forth a cash fare of sixty cents (60¢) for seasonal operations between points in the Washington Metropolitan Area and D. C. Stadium.

3. That D. C. Transit System, Inc., and Washington, Virginia and Maryland Coach Company, Inc., be, and they are hereby, authorized to file a Supplement A to WMATC Tariff No. 3 (Joint Tariff of D. C. Transit System, Inc., and Washington, Virginia and Maryland Coach Company, Inc.) on or before January 13, 1967, to become effective at or after 4:00 A.M. January 14, 1967, and to specify a termination date of March 15, 1967, unless otherwise ordered, setting forth a minimum cash fare of thirty-five cents (35¢) for the first three zones of carriage, or any part thereof, on the Silver Rocket Express, maintaining present transfer provisions.

4. That this proceeding be, and it is hereby, re-opened to receive additional testimony of an independent expert, as hereinabove provided, on the subject of rate of return, and examination of the accounting memorandum referred to hereinabove.

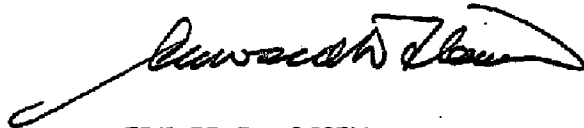
5. That D. C. Transit System, Inc., be, and it is hereby assessed the sum of \$10,000.00, the sum reasonably anticipated to be the cost of the rate of return expert, such sum to be deposited in the name and to the credit of the Washington Metropolitan Area Transit Commission, in the Old Dominion Bank, Rosslyn Branch, 1900 North Fort Myer Drive, Arlington, Virginia, on or before Monday, February 13, 1967.

6. That the staff shall serve copies of the proposed testimony and exhibits of the rate of return expert, to the Commission and all formal parties of record, on or before Thursday, February 16, 1967.

7. That the hearing on the re-opened portion of the proceeding be, and it is hereby, scheduled for Thursday, February 23, 1967, at 10:00 A.M. in the offices of the Commission, 1815 North Fort Myer Drive, Arlington, Virginia.

8. That the tariffs described in Order No. 651 be, and they are hereby, further suspended until Wednesday, March 15, 1967, unless otherwise ordered.

BY DIRECTION OF THE COMMISSION

A handwritten signature in dark ink, appearing to read "Edward D. Storm", written over a horizontal line.

EDWARD D. STORM  
Chairman

APPENDIX A

ORDER NO. 656

	FARES IN EFFECT PRIOR TO <u>THIS ORDER</u>	TRANSIT'S PROPOSED <u>FARES</u>	FARES AUTHORIZED <u>HEREIN</u>
<u>DISTRICT OF COLUMBIA</u>			
Cash	\$ .25	\$ .25	\$ .25
Token	.2125(4/85¢)	.25	.2375(4/95¢)
Interline	.35	.35+5¢	.35+5¢
Capitol Hill Express	.50	.60	.60
Minibus	.10	.10	.10
School	.10	.10	.10
Transfer	Free	.05	Free
<u>MARYLAND</u>			
Intrastate Local			
Zones 1	.15	.25	.25
2	.23	.25	.25
3	.30	.35	.35
4	.37	.45	.45
5	.44	.50	.50
6	.51	.55	.55
7	.58	.60	.60
8	.65	.65	.65
9	.72	.70	.70
10	.79	.75	.75
11	.86	.80	.80
12	.93	.85	.85
Interstate Local			
Zones 1	.40	.45	.40
2	.48	.45	.45
3	.55	.55	.55
4	.62	.65	.65
5	.69	.70	.70
6	.76	.75	.75
7	.83	.80	.80
8	.90	.85	.85
9	.97	.90	.90
10	1.04	.95	.95
11	1.11	1.00	1.00
12	1.18	1.05	1.05

	FARES IN EFFECT PRIOR TO THIS ORDER	TRANSIT'S PROPOSED FARES	FARES AUTHORIZED HEREIN
MARYLAND			
Interstate Express			
Md. - D. C. Line	.35	.35	.35
Zones 1	.43	.60	.50
2	.50	.60	.60
3	.57	.70	.70
4	.64	.80	.80
5	.71	.85	.85
6	.78	.90	.90
7	.85	.95	.95
8	.92	1.00	1.00
9	.99	1.05	1.05
10	1.06	1.10	1.10
11	1.13	1.15	1.15
12	1.20	1.20	1.20
10 Ride Commutation Ticket			
D. C. Line	None	DISCONTINUED SEE INTERSTATE EXPRESS FARES	DISCONTINUED SEE INTERSTATE EXPRESS FARES
Zones 1	\$4.10		
2	4.75		
3	5.40		
4	5.75		
5	6.40		
6	7.00		
7	7.25		
8	7.80		
9	8.40		
10	9.00		
11	9.60		
12	10.20		
OTHER			
Silver Rocket	.30 3 Zones .10 ea. add'l zone Transfer Privilege	.35 3 Zones .10 ea. add'l zone Transfer Discontinued	.35 3 Zones .10 ea. add'l zone Transfer Privilege
Stadium	.50	.60	.60
Virginia Interstate Zone (Route C-1 Langley)	.07	.10	.10

January 12, 1967  
10:30 A.M.

Summary of Decision by  
WMATC in D. C. Transit Rate Case

The Washington Metropolitan Area Transit Commission has found that, if the fares of D. C. Transit System, Inc., are not raised in 1967, the Company would experience a net operating deficit of \$726,000, resulting from operating revenues of \$33,694,000, and from operating expenses of \$34,420,000.

Alternatives to a fare increase were considered by the Commission, but were found to be unacceptable. These included the use of the Court-Ordered Reserve, the Acquisition Adjustment Account, the Reserve for Track Removal, and changes in the bus purchase program.

The Commission found that if fares were raised as proposed by D. C. Transit, the operating revenues would be \$37,446,000, and the operating expenses would be \$34,561,000, resulting in a net operating income of \$2,885,000. This translates to an operating ratio of 92.29%, or a rate of return on operating revenues of 7.71%.

Based upon the evidence before it, the Commission was unable to set a figure for fair return and decided to re-open the case to receive additional expert testimony on this issue. Nor could the Commission ignore the perilous financial prospects of the Company for 1967. It therefore granted interim or stop-gap rates sufficient to cover operating expenses and bare capital costs for 1967.

The new fares will go into effect on or after January 14, 1967. A schedule of fares is attached hereto. These interim fares will produce increased passenger revenues in 1967 of \$2,247,000. It is expected to produce net operating income of \$1,520,000 in 1967, which equates to a return on operating revenue of 4.23%. Out of the \$1,520,000, the Company must meet interest cost of \$1,300,000 projected for 1967.

Additional hearings are scheduled for February 23, at which time Dr. Merrill J. Roberts, an independent expert, will present testimony on the subject of fair return. Dr. Roberts is Professor of Economics, and Director of the Business Research Center at the University of Pittsburgh.

January 12, 1967

ORDER NO. 656

	FARES IN EFFECT PRIOR TO <u>THIS ORDER</u>	TRANSIT'S PROPOSED <u>FARES</u>	FARES AUTHORIZED <u>HEREIN</u>
<u>DISTRICT OF COLUMBIA</u>			
Cash	\$ .25	\$ .25	\$ .25
Token	.2125 (4/85¢)	.25	.2375 (4/95¢)
Interline	.35	.35+5¢	.35+5¢
Capitol Hill Express	.50	.60	.60
Minibus	.10	.10	.10
School	.10	.10	.10
Transfer	Free	.05	Free
<u>MARYLAND</u>			
Intrastate Local			
Zones 1	.15	.25	.25
2	.23	.25	.25
3	.30	.35	.35
4	.37	.45	.45
5	.44	.50	.50
6	.51	.55	.55
7	.58	.60	.60
8	.65	.65	.65
9	.72	.70	.70
10	.79	.75	.75
11	.86	.80	.80
12	.93	.85	.85
Interstate Local			
Zones 1	.40	.45	.40
2	.48	.45	.45
3	.55	.55	.55
4	.62	.65	.65
5	.69	.70	.70
6	.76	.75	.75
7	.83	.80	.80
8	.90	.85	.85
9	.97	.90	.90
10	1.04	.95	.95
11	1.11	1.00	1.00
12	1.18	1.05	1.05



FARES IN  
EFFECT  
PRIOR TO  
THIS ORDER

TRANSIT'S  
PROPOSED  
FARES

FARES  
AUTHORIZED  
HEREIN

MARYLAND

## Interstate Express

Md. - D. C. Line	.35	.35	.35
Zones 1	.43	.60	.50
2	.50	.60	.60
3	.57	.70	.70
4	.64	.80	.80
5	.71	.85	.85
6	.78	.90	.90
7	.85	.95	.95
8	.92	1.00	1.00
9	.99	1.05	1.05
10	1.06	1.10	1.10
11	1.13	1.15	1.15
12	1.20	1.20	1.20

## 10 Ride Commutation Ticket

## D. C. Line

Zones 1	None
2	\$4.10
3	4.75
4	5.40
5	5.75
6	6.40
7	7.00
8	7.25
9	7.80
10	8.40
11	9.00
12	9.60
	10.20

DISCONTINUED  
SEE INTERSTATE EXPRESS FARES

DISCONTINUED  
SEE INTERSTATE EXPRESS FARES

OTHER

## Silver Rocket

.30 3 Zones  
.10 ea. add'l  
zone  
Transfer  
Privilege

.35 3 Zones  
.10 ea. add'l  
zone  
Transfer  
Discontinued

.35 3 Zones  
.10 ea. add'l  
zone  
Transfer  
Privilege

## Stadium

.50

.60

.60

Virginia Interstate Zone  
(Route C-1 Langley)

.07

.10

.10

January 12, 1967  
10:30 A. M.

STATEMENT BY SENATOR EDWARD D. STORM, CHAIRMAN

Washington Metropolitan Area Transit Commission

The Commission has just issued its decision in the D. C. Transit rate case.

We are granting some increases, just enough to cover the immediate financial needs of the Company, on a stop-gap basis.

One of the major increases involves the token rate in the District of Columbia which was four (4) for 85¢ and, beginning Saturday morning, will be four (4) for 95¢; another increase is in the minimum local fare in Maryland, raised to 25¢ for the first two zones. The local fare in Maryland was formerly 15¢ for the first zone and 8¢ more for the second zone.

The Commission did not arrive at a final determination of fair return for this applicant; instead, it is re-opening the case, and will hear testimony of an independent expert on the subject of fair return, on February 23.

The Commission staff has retained Dr. Merrill J. Roberts for this purpose. Dr. Roberts is Professor of Economics and Transportation, and Director of the Business Research Center of the University of Pittsburgh.

The fare changes authorized today will generate annual revenues for the Company of \$35,900,000, which is one and one-half million dollars less than the level requested by the applicant. The Company's net operating income from these interim fares should produce about one and a half million dollars on an annual basis, which is designed to cover its capital costs.